

**State of Montana**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
For the Fiscal Year Ended June 30, 2008

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

### FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

#### Government-wide Highlights

The assets of the State exceeded its liabilities at the end of fiscal year 2008 by \$6.8 billion (reported as net assets) compared with \$6.5 billion at the end of fiscal year 2007. Of this amount, \$606.3 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of \$1,185.1 million compared with \$1,127.3 million at fiscal year end 2007.

#### Fund Highlights

As of the close of fiscal year 2008, the State's governmental funds reported combined ending fund balances of \$3.3 billion compared with \$3.1 billion at fiscal year 2007. Of this amount, \$474.7 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of \$2.8 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was \$433.6 million compared with \$549.2 million in fiscal year 2007, which is a decrease of \$115.6 million (21%).

The State's business-type activity funds reported net assets at the close of fiscal year 2008 in the amount of \$357 million compared with the fiscal year-end 2007 net assets of \$335.2 million. \$337 million of the business-type activity fund equity was restricted at fiscal year-end 2008, with \$8.7 million invested in capital assets, net of related debt, leaving an unrestricted balance of \$11.2 million. This represents a \$0.6 million (5.1%) decrease from the fiscal year-end 2007 business-type activity fund unrestricted net asset balance of \$11.8 million.

#### Long-term Debt

The State's total bonds and notes payable for governmental activities increased by \$26.7 million, from \$396 million in fiscal year 2007 to \$422.7 million (6.7%) in fiscal year 2008.

Business-type activities reported bonds and notes payable of \$1.9 million at fiscal year-end 2008. This represents a decrease of \$1.2 million (38.7%) over the fiscal year-end 2007 reported amount of \$3.1 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains additional required supplementary information (budgetary schedules and other post employment benefits plan information). These components are described below:

#### Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements and combining major component unit financial statements*. These financial statements also include the *notes to the financial statements* that explain some of the information in the financial statements and provide more detail.

#### Government-wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial

position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are as follow:

*Governmental Activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health services, legal and judiciary services, museums, natural resources, public safety and defense, regulatory services, social services, and transportation.

*Business-type Activities* – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bond Program that assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

*Discretely Presented Component Units* – These are operations for which the State has financial accountability, but they have certain independent qualities as well. For the most part, these entities operate similarly to private sector businesses and the business-type activities described above. The State has three authorities and two universities that are reported as discretely presented component units of the State.

### **Fund Financial Statements (Reporting the State's Major Funds)**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds of the State can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are as follows:

*Governmental Funds Financial Statements* – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund,

the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

*Proprietary Funds Financial Statements* – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery. An internal service fund reports activities that provide supplies and services for the State’s other programs and activities such as the Motor Pool.

*Fiduciary Funds* – These funds are used to account for resources held for the benefit of parties outside state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State’s own programs. Fiduciary funds use the accrual basis of accounting. A retirement fund is an example of a fiduciary fund.

#### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component unit financial statements.

#### **Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund, as presented in the governmental fund financial statements, and other post employment benefits plan information.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Montana’s overall financial position improved over the last fiscal year. This improvement was caused by stronger than expected statewide economic performance.

#### **Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. The State’s combined net assets (government and business-type activities) totaled \$6.8 billion at the end of fiscal year 2008. Net assets of the governmental activities increased \$337 million (5.5%), and business-type activities had a \$21.8 million (6.5%) increase.

A portion of the State’s net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State’s net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the State’s ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the State was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**Net Assets**  
**As of Fiscal Year Ended June 30**  
*(expressed in thousands)*

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
Current and other assets	\$3,830,490	\$4,320,143	\$466,063	\$495,962	\$4,296,563	\$4,816,105
Capital assets	3,402,036	3,553,591	8,698	8,733	3,410,734	3,562,324
Total assets	7,232,526	7,873,734	419,419	504,695	7,707,287	8,378,429
Long-term liabilities	415,944	461,857	10,212	10,857	426,156	472,714
Other liabilities	678,175	936,491	129,368	136,835	807,543	1,073,326
Total liabilities	1,094,119	1,398,348	139,580	147,692	1,233,205	1,546,040
Invested in capital assets, net of related debt	3,115,260	3,262,932	8,698	8,733	3,123,958	3,271,665
Restricted	2,347,395	2,617,435	314,722	337,036	2,662,117	2,954,471
Unrestricted	675,752	595,019	11,761	11,234	687,513	606,253
Total net assets	\$6,138,407	\$6,475,386	\$335,181	\$357,003	\$6,473,588	\$6,832,389



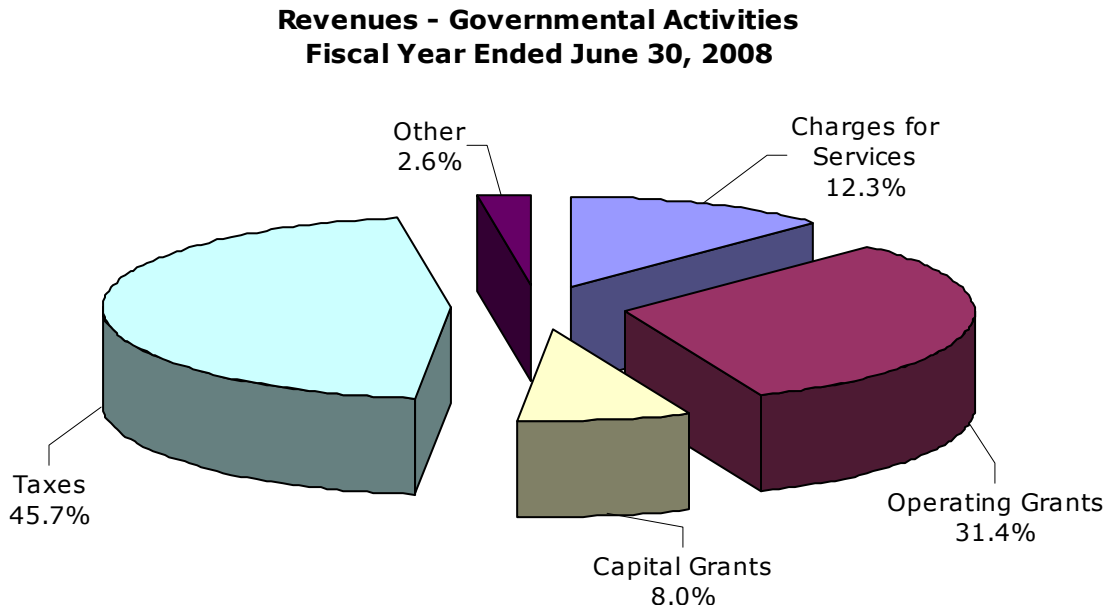
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net assets changed during the fiscal year:

**Changes in Net Assets**  
**For Fiscal Year Ended June 30**  
*(expressed in thousands)*

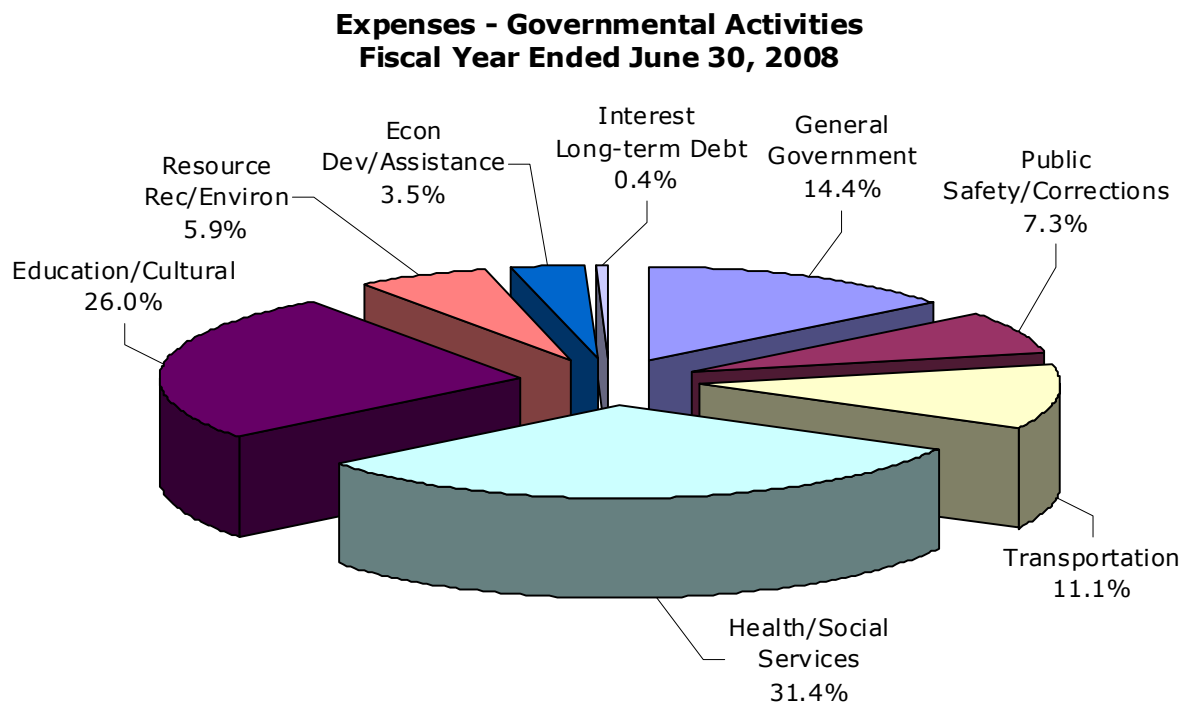
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 487,767	\$ 584,098	\$257,729	\$300,952	\$ 745,496	\$ 885,050
Operating grants	1,371,109	1,493,944	58,051	63,524	1,429,160	1,557,468
Capital grants	305,345	380,856	378	540	305,723	381,396
General revenues						
Taxes	1,871,808	2,171,422	17,317	20,340	1,889,125	2,191,762
Other	73,388	123,152	5,162	3,068	78,550	126,220
Total revenues	4,109,417	4,753,472	338,637	388,424	4,448,054	5,141,896
<b>Expenses:</b>						
General government	525,981	634,984			525,981	634,984
Public safety/corrections	245,810	322,769			245,810	322,769
Transportation	216,942	488,450			216,942	488,450
Health/social services	1,270,056	1,380,629			1,270,056	1,380,629
Educational/cultural	976,046	1,144,637			976,046	1,144,637
Resource/rec/envirom	142,460	258,058			142,460	258,058
Econ dev/assistance	150,449	152,456			150,449	152,456
Interest on long-term debt	19,569	18,344			19,569	18,344
Unemployment Insurance			72,661	90,269	72,661	90,269
Liquor Stores			50,514	59,227	50,514	59,227
State Lottery			31,020	32,984	31,020	32,984
Economic Dev Bonds			3,441	4,552	3,441	4,552
Hail Insurance			4,632	11,064	4,632	11,064
Gen Govt Services			51,017	56,697	51,017	56,697
Prison Funds			5,356	6,670	5,356	6,670
MUS Group Insurance			52,139	59,334	52,139	59,334
MUS Workers Comp			2,978	3,109	2,978	3,109
Total expenses	3,547,313	4,400,327	273,758	323,906	3,821,071	4,724,233
Increase (decrease) in net assets before transfers	562,104	353,145	64,879	64,518	626,983	417,663
Transfers	34,802	43,010	(34,802)	(43,010)	-	-
Change in net assets	596,906	396,155	30,077	21,508	626,983	417,663
Net assets, beg of year (restated)	5,095,576	6,079,231	266,852	335,495	5,362,428	6,414,726
Net assets, end of year	\$5,692,482	\$6,475,386	\$296,929	\$357,003	\$5,989,411	\$6,832,389

### Governmental Activities

The following chart depicts revenues of the governmental activities for the fiscal year:

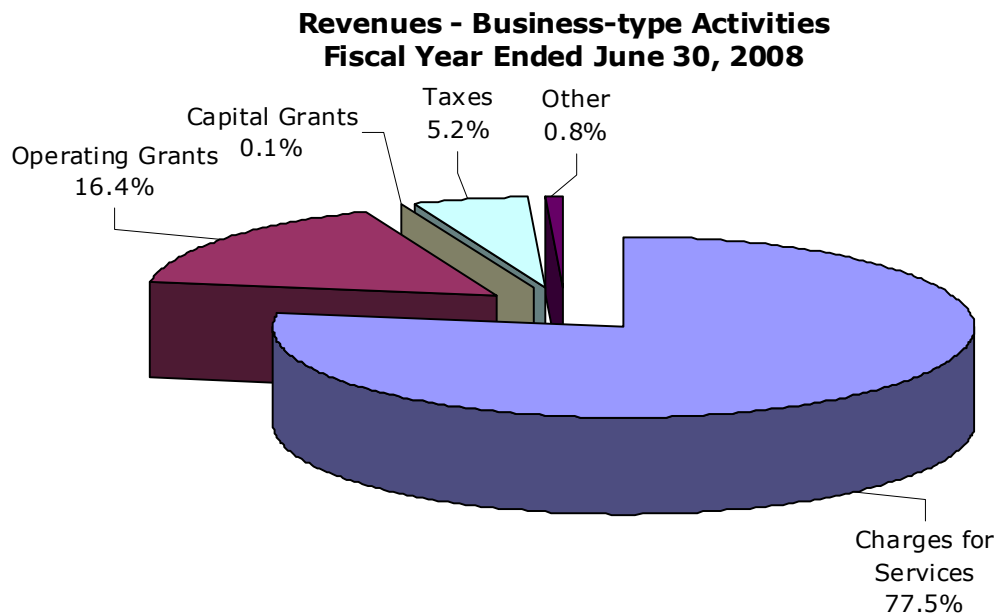


The following chart depicts expenses of the governmental activities for the fiscal year:

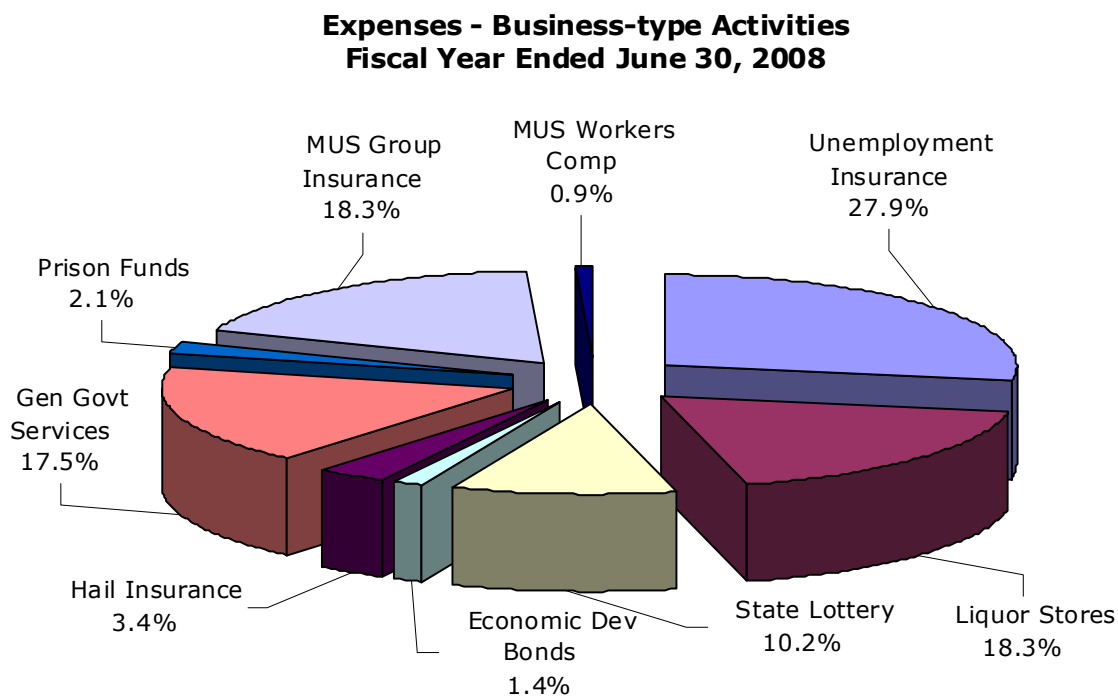


**Business-type Activities**

The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:



**FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS**

As the State completed the year, its governmental funds reported fund balances of \$3.3 billion. Of this total amount, \$474.7 million (14.4%) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved because it is legally segregated for a specific future use, or is not available for new spending, as it has already been dedicated for various commitments. The analysis of these funds provides the explanation for the overall change in net assets at the government-wide level also since these represent the major operating funds of the state as a whole.

**General Fund**

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$433.6 million. This represents 91.3% of the 474.7 million unreserved governmental fund balance. The ending General Fund unreserved fund balance was \$243.3 million higher than the anticipated \$190.3 million estimated by the 60<sup>th</sup> Legislature. Unreserved fund balance decreased during the fiscal year by \$115.6 million, primarily because of increases in all expenditure categories. General Fund expenditures for fiscal year 2008 increased by \$245.3 million (15.1%). This was partially offset by revenue collections that were \$105.6 million more than anticipated. The increases in both expenditures and revenues are discussed in detail below.

Higher Revenues Than Anticipated – Total General Fund revenue was \$1,877.8 million for fiscal year 2008. This was \$105.6 million (6%) more than fiscal year 2007, and \$164.8 million (9.6%) higher than what was projected for fiscal year 2008. The increase in revenue from fiscal year 2007 to fiscal year 2008 was primarily a result of increased revenue from taxes, including individual income, property, and oil/natural gas production, and treasury cash account interest earnings. Within the tax category, individual income and property tax revenue increased \$23.7 and \$12.3 million, respectively. Continued economic growth within Montana contributed to this income and property tax growth. Higher than projected oil and gas prices, combined with higher mineral prices, led to increased production within the State resulting in natural resource taxes increasing by \$67.3 million (56.7%) in fiscal year 2008.

Total revenues for fiscal year 2008 were \$128.5 million, 7.3% over the official forecast. Individual income tax exceeded the revenue estimate by \$49.5 million (6.2%). Natural resource taxes exceeded the estimate by \$57.0 million (44.1%); and treasury cash account interest earning exceeded the estimate by \$10.4 million (46.2%).

General Fund Expenditure Budgets – General Fund expenditures were lower than appropriated by nearly \$80.3 million. The related reversions include the following:

- General Government – \$5.6 million in long-range building program funding for projects such as public safety radio and network expansion. These long-range building program appropriations are continued into future fiscal years. \$4.2 million in estimated property tax refund program payments were reverted.
- The Department of Health and Human Services reverted \$23.9 million of authority. Most of this unspent authority was due to lower than expected Medicaid costs.
- The Department of Corrections had unspent authority of \$11.7 million, most of which will be carried forward to fiscal year 2009.
- The Commissioner of Higher Education carried forward \$4.4 million in authority to fiscal year 2009.

General Fund Expenditures – General Fund expenditures increased by \$245.3 million (15.1%). The factors behind this increase are summarized below:

- A one-time property tax offset payment program of \$94.6 million occurred in fiscal year 2008. These payments were reported as expenditures, rather than revenue abatements because: the related collections related to multiple past fiscal years. The refunds were related to a mixture of state and local government property tax collections, and this was a one-time program (taxpayers normally are not eligible for a refund of any property taxes not paid in error).
- Operational costs increased by \$61.4 million (44.0%). A large part of this increase was caused by the costs of fighting fires in a very active 2007 (fiscal year 2008) season, combined with increased energy costs.
- Local assistance increased by \$64.6 million (8.6%). This includes increased payments to the local schools for K-12 funding of \$60.1 million (9.6%).
- Support to the university system increased by \$21.8 million (13.9%).

**State Special Revenue Fund**

At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was \$1.2 billion. Fund balance increased during the fiscal year by \$193.6 million (19.7 %).

Natural resource taxes increased by \$63.5 million (48.8%). This increase resulted from increased oil, natural gas, copper, and other natural resource prices which, in turn, caused increased production of these minerals within the State generating the increased revenue. The \$29.6 million increase in rentals/leases and royalties relates to a change in accounting for a sale of future revenue streams, relating to natural resource leases, required by GASB Statement 48. Bond issuances in the amount of \$44.7 million represent a 100% increase in fiscal year 2008. The bonds will be offset by a related increase in state debt in the government-wide statements. Transfers in increased by \$40.7 million (26.4%) primarily as a result of an increase in mineral and timber royalty activity.

Expenditures within the State Special Revenue Fund increased by \$79.7 million (9.1%). Within the State Special Revenue Fund, expenditures primarily increased in the general government function, \$64.0 million (40.1%). This primarily was due to increased oil production tax distributions, \$51.9 million (53.0%), to the counties resulting from higher oil prices. Expenditures also increased significantly within the health/social services function. These increases include:

- Increased tobacco health and Medicaid initiative payments \$7.2 million (118.8%).
- An increase in statewide tobacco settlement payments of \$4.9 million (77.0%).
- Increases in activities funded by the Hospitalization Utilization fees of \$4.2 million (33.4%).
- An increase in tobacco settlement funds spent on the Children's Health Insurance Program and insurance activities funded with Montana comprehensive health association subsidies of \$2.7 millions (86.6%).

Transportation expenditures decreased by \$42.6 million (15.6%). \$13.5 million of this decrease and a corresponding capital outlay increase was primarily the result of a reporting change reclassifying part of the Department of Transportation expenditure activity as capital outlay. The remaining decrease primarily resulted from lower highway construction activities of \$20.6 million.

**Federal Special Revenue Fund**

Fund balance in the Federal Special Revenue Fund decreased by \$21.2 million (92.6%). This decrease resulted from an expenditure accrual relating to the costs of fighting fires in the very active 2007 (fiscal year 2008) season. The accrual was for 27.4 million, with \$26.6 million of the related revenue deferred because it would not be received within the 60 day availability period used by the state, under the modified accrual basis of accounting. This deferral is reflected in the government-wide statements because these are on a full accrual basis.

Revenues increased by \$108.0 million (7.0%) and expenditures increased by \$118.3 million (7.7%). Because most federal programs are expenditure-driven, a direct correlation normally exists between revenues and expenditures. Programs such as food stamps and certain higher education programs are allowed to carry assets in their federal entities, creating a normal overall positive fund balance for the fund as a whole.

Transportation expenditures decreased by \$172.4 million, and capital outlay increased by \$224.3 million, primarily as a result of a reporting change reclassifying the majority of the Department of Transportation expenditure activity as capital outlay.

**Coal Severance Tax Permanent Fund**

Reserved fund balance in the Coal Severance Tax Permanent Fund increased by \$28.4 million (3.7%). Coal taxes increased slightly due to increased coal production, while investment earnings decreased as a result of the impact of the national investment crisis.

**Land Grant Permanent Fund**

Reserved fund balance in the Land Grant Permanent Fund increased by \$10.2 million (2.3%). The \$15.8 million (31.4%) decrease in rentals, leases, and royalties relates to the change in accounting for a sale of future natural resource lease revenue stream owned by the Land Grant Permanent Fund, as discussed in the State Special Revenue Fund section. This accounting change also resulted in significant, offsetting decreases in transfers in and out.

**Unemployment Insurance Enterprise Fund**

Net assets restricted for unemployment compensation increased by \$15.5 million (5.9%). Unemployment premium collections increased by \$2.1 million (2.6%). Unemployment benefits paid increased by \$16.8 million. The large increase

in unemployment collections more than offset the increase in unemployment benefits paid, and contributed to the increase in net assets. This was reflective of an increase in Montana's unemployment rate, combined with an overall strong Montana economy.

### **Economic Development Bonds Enterprise Fund**

Net assets decreased by \$49,000 in fiscal year 2008. The fund did not experience significant changes in operations during fiscal year 2008.

### **General Governmental Functions**

Revenue sources for general governmental functions, which include the general, special revenue, debt service, capital projects, and permanent funds, increased 7.6% from fiscal year 2007 to fiscal year 2008. Revenues from various sources for fiscal year 2008, and the amount and percentage of increases and decreases in relation to prior year revenues are shown in the following table (amounts in thousands):

<b>Revenue Source</b>	<b>Amount</b>	<b>2008 Percent of Total</b>	<b>Increase (Decrease) from 2007</b>	<b>Percent Increase (Decrease)</b>
Licenses/permits	\$ 283,755	6.1%	\$ (2,135)	(0.7)%
Taxes	2,162,928	46.4	153,308	7.6
Chg srv/fines/forfeits/settle	188,518	4.0	27,947	17.4
Investment earnings	165,165	3.5	(5,882)	(3.4)
Securities lending income	8,879	0.2	3,540	66.3
Sales doc/merch/property	19,711	0.4	(749)	(3.7)
Rentals/leases/royalties	65,176	1.4	13,734	26.7
Contributions/premiums	17,181	0.4	7,941	85.9
Grants/contracts/donations	27,825	0.6	2,463	9.7
Federal	1,616,913	34.7	112,318	7.5
Federal indir cost rcvy	96,565	2.1	14,954	18.3
Other revenues	4,892	0.2	2,191	81.1
<b>Total revenues</b>	<b>\$4,657,508</b>	<b>100.0%</b>	<b>\$329,630</b>	<b>7.6%</b>

Total expenditures for all governmental functions increased 11.0% from fiscal year 2007 to fiscal year 2008. Expenditures by function for fiscal year 2008, and the amount and percentage of increases or decreases in relation to the previous year amounts are depicted in the table below:

<b>Expenditure Function</b>	<b>Amount (in thousands)</b>	<b>2008 Percent of Total</b>	<b>Increase (Decrease) from 2007</b>	<b>Percent Increase (Decrease)</b>
General government	\$ 545,662	11.9%	\$ 144,331	36.0%
Public safety/corrections	311,094	6.8	26,317	9.2
Transportation	360,383	7.9	(214,774)	(37.3)
Health/social services	1,372,335	29.9	104,481	8.2
Education/cultural	1,137,548	24.8	87,309	8.3
Resource/recreation/environment	300,207	6.5	53,117	21.5
Economic development/assistance	149,056	3.2	(3,386)	(2.2)
Securities lending	7,244	0.2	1,983	37.7
Debt service	52,698	1.1	515	1.0
Capital outlay	351,111	7.7	255,277	266.4
<b>Total expenditures</b>	<b>\$4,587,338</b>	<b>100.0%</b>	<b>\$ 455,170</b>	<b>11.0%</b>

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounted to \$5.3 billion, net of accumulated depreciation of \$1.7 billion, leaving a net book value of \$3.6 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately 5.9 % in terms of net book value. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Additional information on the State's capital assets can be found in Note 5 of the notes to the financial statements.

### Debt Administration

Montana receives excellent general obligation bond ratings from both Moody's Investor Service (Aa2), Standard and Poor's Corporation (AA) and Fitch Ratings (AA). The State received a bond rating upgrade from Standard and Poor's in 2008.

State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature, or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt decreased from \$208 million at June 30, 2007, to \$201.6 million at June 30, 2008.

The ratio of general obligation debt to personal income and the amount of general obligation debt per capita are:

	<b>Amount</b> <i>(in thousands)</i>	<b>Percentage of</b> <b>Personal Income (1)</b>	<b>State Debt</b> <b>Per Capita (2)</b>
General obligation debt	\$201,560	1.3%	\$440

(1) Personal income is for calendar year 2007.

(2) Based on estimated 2008 Montana population.

More detailed information regarding the State's long-term obligations is presented in Note 11 to the financial statements.

## ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 4.0% in the second quarter of 2008, which is an increase from the rate of 2.4% during the second quarter of 2007. As of October 2008, the State's rate has risen to 4.8%. This compares favorably with the U.S. rate of 6.5% but reflects a softening of Montana's economy resulting from the overall national investment crisis.

The 60<sup>th</sup> Legislative Session adjourned on April 27, 2007, with a projected general fund balance of \$190.3 million. During fiscal year 2008, Montana's economy remained strong with the General Fund balance, as of June 30, 2008, ending at the \$433.6 million level.

One of the state retirement systems, the Teachers Retirement System (TRS), is not actuarially sound, and has an unfunded actuarially accrued liability as of June 30, 2008. The actuarial condition of this plan is fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Note 6 and Note 18 of the financial statements. The unfunded actuarial liability is long-term in nature, and does not translate into an inability of this plan to meet their current obligations in the near future.

The other state retirement systems are actuarially sound as of fiscal year end 2008.

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, State Accounting Division, Room 255 Mitchell Building, Capitol Complex, Helena, MT 59620.